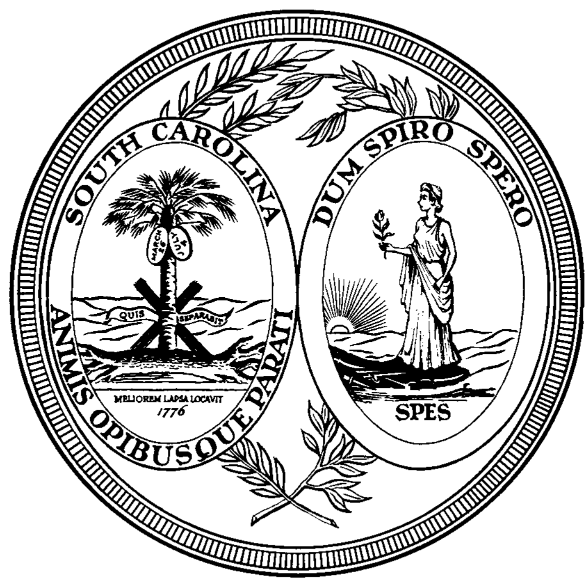
INFORMATION C
(Consultant RFP 04/04)

STATE RETIREMENT SYSTEMS INVESTMENT PANEL

ANNUAL INVESTMENT PLAN FISCAL YEAR 2003-2004



as amended by the **State Budget & Control Board** on November 12, 2003

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SECTION I

PURPOSE

The purpose of this Annual Investment Plan (Plan) is to document the policies and procedures that will govern the implementation and oversight of a strategy for the investment of a portion of the assets of the South Carolina Retirement System, Police Officers Retirement System, Retirement System for Judges and Solicitors of South Carolina, and Retirement System for Members of the General Assembly of South Carolina (collectively referred to as "South Carolina Retirement Systems") in the equity markets. This Plan applies to Fiscal Year 2003-2004, beginning July 1, 2003.

This Plan has been developed by the State Retirement Systems Investment Panel (Panel) based upon information and data provided by the Investment Consultant, Mercer Investment Consulting, Inc., and the Panel's understanding and interpretation of the information presented. The Plan outlined herein is recommended by the Panel for adoption by the State Budget and Control Board (Board) acting as the trustee of the South Carolina Retirement Systems. The Panel may recommend amendments to the Annual Investment Plan during the fiscal year, subject to the approval by the Board.

SECTION II

OBJECTIVES

The primary objectives of the equity portfolio of the State Retirement Systems are:

- To complement the existing fixed income portfolio by providing a diversified exposure to the broad equity market;
- To provide a broad market exposure, reflective of domestic economic activity;
- To cost effectively access the markets while achieving representative exposure; and
- To avoid excessive risk relative to the broad market while obtaining competitive returns.

Over the life of the Retirement Systems, the equity portfolio is intended to provide growth in principal to improve the probability of maintaining an adequate pool of assets to support the benefit obligations to participants, retirees, and beneficiaries.

EQUITY/FIXED INCOME ASSET ALLOCATION STRATEGY

S.C. Code Ann. §9-16-340 provides a target allocation of 40% of the assets of the Retirement Systems to be invested in equities on an ongoing basis, and consequently, the remaining 60% of the portfolio to be allocated to fixed income investments. However, the statute also recognizes that market appreciation may move the asset allocations away from these target allocations. The Board, upon recommendation of the Investment Panel and the Investment Consultant, adopted an asset allocation policy and rebalancing policy to maintain the target 40%/60% allocation within the statutory guidelines while minimizing the costs of maintaining that target through active rebalancing. The asset allocation policy and rebalancing policy will be implemented through the use of ranges around the target allocation. The asset allocation of the portfolio may fluctuate within these bands, but any movement outside of the bands will trigger a rebalancing back toward the target allocation.

The asset allocation target and bands that have been determined to provide the greatest risk control while permitting the greatest cost efficiency are listed below.

Asset Class	Target Allocation	Minimum Allocation	Maximum Allocation
Fixed Income	60%	55%	65%
Equity	40%	35%	45%
Cash	Discretionary within the Fixed Income Portfolio		

The asset allocation of the portfolio will be reviewed on a quarterly basis using the most recently available statement from the Retirement Systems' custodian. Should one of the asset classes exceed its minimum or maximum allocation, a rebalancing will occur. If the Fixed Income asset class exceeds its maximum allocation, the rebalancing will be effected by transferring assets from the Fixed Income asset class to the Equity asset class until the Fixed Income assets are at its target allocation. If the Equity asset class exceeds its maximum allocation, the rebalancing will be effected by transferring assets from the Equity asset class to the Fixed Income asset class until the Equity assets are at or below its target allocation. The rebalancing will occur over multiple quarters until the target allocation is reached. No more than 2.5% and no less than 1% will be rebalanced in a single quarter.

Cash flows into or out of the portfolio will be managed within the fixed income portion of the portfolio.
A cash account will be established for the payment of expenses related to the Retirement Systems and such account will be managed and invested by the State Treasurer's Office in accordance with S.C. Code Ann. §11-9-660, as amended.

EQUITY PORTFOLIO ALLOCATION
The Panel has undertaken studies and analyses to determine the most efficient and effective long-term allocation among active and passive management disciplines and among different style managers. The goal of the equity asset allocation is to achieve returns that exceed the Equity Portfolio benchmark of the S&P 500 Index while maintaining a risk profile that is consistent with the S&P 500 Index. Based upon the outcome of these studies, the Panel recommended and the Board approved the allocation targets specified below for investing the equity portfolio. These targets and ranges were determined to provide the Equity Portfolio with the potential to outperform the broad market index (S&P 500) while accepting only that additional portfolio volatility risk commensurate with (or less than) the expected outperformance. These targets have been reviewed and amended as appropriate relative to the FY 2002-2003 targets based on a recent equity structure study, the Systems' experience with equities in general, and the Systems' specific lineup of investment managers.

EQUITY SUBCLASS ALLOCATIONS

Asset Class	Target	Minimum	Maximum
Passively Managed Large Cap*	***45.0%***	***40.5%***	***49.5%***
Actively Managed Large Cap			
Core	10.0%	7.0%	13.0%
Growth	14.0%	12.0%	16.0%
Value	16.0%	14.0%	18.0%
Passively Managed Smaller Cap		0.0%	
Actively Managed Smaller Cap	***15.0%***	***13.5%***	***16.5%***
Core	5.00%	3.50%	6.50%
Growth	4.75%	3.75%	5.75%
Value	5.25%	4.25%	6.25%

** Cap = Market Capitalization*

Asset Allocation Monitoring and Rebalancing
Asset allocation has the most significant impact on portfolio returns; therefore, maintaining the target allocations within the portfolio is crucial to the long-term success of the equity program, both in terms of returns and in terms of risk profile. However, the cost of deviating from the target allocations must be balanced against the real costs of actively rebalancing, i.e., taking money away from one asset class and moving it to another asset class. Active rebalancing generates costs such as trading commissions, market impact, and potential market timing costs. These costs were taken into consideration when developing a plan to optimize the active rebalancing profile, given the cost and risk reduction trade-offs involved in rebalancing.

The asset allocation and rebalancing policy for the equity assets is a cascading policy that works both in conjunction with the larger equity/fixed income allocation/rebalancing policy and independently of it. Any cash flow needs that arise out of the equity/fixed income allocation policy will be implemented through the policy outlined below to determine the source or destination of assets going into or out of the equity portfolio.

The general rebalancing policy depends on ranges around each target allocation, both for equity subclass targets and for the manager level targets within each equity asset subclass. When an allocation reaches its minimum or maximum allocation, it will be rebalanced to the halfway point between the target and the minimum/maximum point rather than fully to the target allocation.

As there are three hierarchical levels to the SCRS asset allocation policy, the rebalancing policy must consider the interlocking nature o these three levels (Equity/Fixed Income, Equity SubClass, Manager Allocations within the Equity SubClass). Each level will be reviewed quarterly to determine whether it is within its asset allocation range. The review will be initiated at the top level (Equity/Fixed Income) and proceed downward to the manager level. Each of the higher levels may impact the levels below it. The impact of the higher level activity will be implemented before conducting the lower level analysis. This means that if the broad equity asset class is below its minimum range, then assets will be transferred from fixed income to equity. Those new assets will be distributed according to the cascading policy described below. After those assets are allocated to equity asset subclasses and then managers, some of the equity asset subclasses/managers that may have been originally outside of their ranges before the new assets were distributed may now be inside their ranges. In that case, no further rebalancing action would be necessary.

Cascading Cash Flow Policy

In the event that any of the asset subclass allocation levels move outside of their target range, then rebalancing will be necessary. The rebalancing cash flow amount will be determined by moving the subclass that is outside of its range to the half-way point between its target and the minimum/maximum range. The assets generated by or needed for that transaction will be distributed to or contributed by (1) any asset subclasses that are more than halfway to the minimum or maximum of their range in an amount to bring them back to the halfway point (if there is more than one, they will be reallocated serially). (2) If there are no asset subclasses that meet that criteria or there are still additional assets to be distributed/collected following that step, those assets will be apportioned to all asset classes to minimize the overall deviation from the target allocation, subject to a reasonable minimum transaction size. This same policy will be followed for allocations between managers within each Equity Asset SubClass.

Manager Allocations Within Each Equity Asset SubClass

The manager allocations and ranges will be maintained following the same cascading rebalancing policy described above. The ranges for each manager's allocation are relative to the **asset subclass**.

Asset SubClass	Manager	Target	Minimum	Maximum
Large Cap Passive		**45.0% of Equity**	**40.5%**	**49.5%**
	State Street	100% of Passive Large Cap	100%	100%
Large Cap Active				
Large Cap Core		**10.0% of Equity**	**7.0% of Equity**	**13.0% of Equity**
	BGI	40.0% of Large Cap Core	35.0%	45.0%
	Wellington	60.0% of Large Cap Core	55.0%	65.0%
Large Cap Growth		**14.0% of Equity**	**12.0% of Equity**	**16.0% of Equity**
	Montag & Caldwell	45.0% of Large Cap Growth	40.0%	50.0%
	Alliance	55.0% of Large Cap Growth	50.0%	60.0%
Large Cap Value		**16.0% of Equity**	**14.0% of Equity**	**18.0% of Equity**
	Bernstein	32.5% of Large Cap Value	29.5%	35.5%
	Flippin	25.0% of Large Cap Value	22.0%	28.0%
	Institutional Capital	42.5% of Large Cap Value	38.5%	46.5%
Smaller Cap Active		**15.0% of Equity**	**13.5% of Equity**	**16.5% of Equity**
Smaller Cap Core		**5.0% of Equity**	**3.50% of Equity**	**6.50% of Equity**
	Fidelity	50.0% of Small Cap Core	40.0%	60.0%
	Boston Company	50.0% of Small Cap Core	40.0%	60.0%
Smaller Cap Growth		**4.75% of Equity**	**3.75% of Equity**	**5.75% of Equity**
	Suffolk	35.0% of Small Cap Growth	25.0%	45.0%
	Times Square	65.0% of Small Cap Growth	55.0%	75.0%
Smaller Cap Value		**5.25% of Equity**	**4.25% of Equity**	**6.25% of Equity**
	JL Kaplan	60.0% of Small Cap Value	50.0%	70.0%
	Benson	40.0% of Small Cap Value	30.0%	50.0%

Special Considerations

Smaller Cap: The smaller cap asset class presents unique concerns with the funding and rebalancing schedule outlined above due to the lower liquidity generally present in the smaller cap market. This lower liquidity level implies a higher cost for the System for each transfer of monies into or out of a smaller cap manager's account. For this reason, a "buffer" fund will be used to minimize the number of transfers into and out of these accounts. A passive Russell 2000 Index fund will be used to maintain this liquidity buffer for the smaller cap asset classes to hold assets that are scheduled to be transferred to or from any smaller cap manager where the size of the transfer is not sufficient to justify the transaction costs of the transfer. These justification criteria are outlined below.

The Passive Smaller Cap fund (or "liquidity fund") will not have any explicit target asset allocation of its own. It will only serve to hold assets that cannot be transferred to one of the smaller cap asset classes due to trading cost or other considerations.

The funding for the smaller cap asset classes and managers will proceed as specified in the general funding and rebalancing guidelines above, but will be subject to the following additional considerations:

1. Cash flows between the Smaller Cap group and the rest of the equity portfolio (the large cap asset classes) will be funded from/to the passive buffer first.

2. When a small cap asset class moves outside of its range, the other side of the transaction will be the passive fund if no other small cap asset classes are outside of their range.

3. If insufficient funds are available in the passive fund to complete any rebalancing transaction and none of the small cap asset classes are outside of their respective ranges, assets will be taken from small cap asset classes only to the extent that they move back to their halfway point (between target and minimum or maximum).

These guidelines do not have any effect on the 15% allocation to smaller cap equities, nor do they affect the target allocations to each of the smaller cap asset classes. The smaller cap liquidity fund is not an asset class in and of itself, but only a liquidity vehicle.

When calculating the quarterly funding and rebalancing amounts, the small cap asset classes, including the liquidity fund, will be considered a single asset class relative to the large cap asset classes. This will simplify the calculations and treat the liquidity fund as part of the total smaller cap allocation.

Large Cap Core Manager Funding

The Board previously terminated its relationship with JP Morgan in the Large Cap Core strategy, and the assets from the JP Morgan account were invested in the Passively Managed Large Cap fund pending appointment of a new manager. The Panel selected and the Board approved the appointment of Barclays Global Investors (BGI) upon execution of a contract. In maintaining the allocation within the large cap core asset class, the general rules outlined above for all asset classes will be followed, except that after the execution of a contract with BGI and as soon as practicable thereafter, funds equal to the amount that exceeds the Passively Managed Large Cap fund target of 45% will be transferred to BGI to initially fund that account.

INVESTMENT PERFORMANCE GUIDELINES

The equity portfolio of the State Retirement Systems will strive to achieve the following over rolling five year periods:

- Provide an absolute return of 6.0%, net of inflation;
- Provide an annualized rate of return that exceeds the actuarial return assumption of 7.25%;
- Outperform the return of the benchmark index, the S&P 500 Index. To the extent that indexed funds are utilized, the Panel will expect the portfolio to closely track the index return, but will not anticipate outperformance on this basis;
- Outperform a broad universe of equity managers; and
- The volatility of returns, as measured by the standard deviation of quarterly returns, should be comparable to that of the benchmark index. Additional volatility should be rewarded with a commensurate improvement in return.

SECTION III

MANAGER SEARCH PROCESS

The State Budget and Control Board is responsible for the investment of all assets and for establishing sound policies and practices. All investments shall be made solely in the interest of the participants, beneficiaries, and retirees of the South Carolina Retirement Systems and in compliance with the Statement of Investment Objectives and Policies established by the Board.

The Board may, at its discretion, retain registered investment advisors to manage all or a portion of the Systems' assets. (Investment advisors/counselors were exempted by the Board from the Consolidated Procurement Code on July 13, 1982). Investment advisors shall be selected from established and financially sound organizations that have a proven and demonstrable record in managing funds with characteristics appropriate for the risk/return profile of the Systems' assets. The selection process, which is outlined below, will involve a disciplined approach that will be fully documented for the Board's and the Panel's records.

Establishment of Selection Criteria – The general criteria for each manager type is identified and stated in Section IV. Prior to the inception of any search process, the specific criteria that will apply for that search will be recommended by the Panel. The specific guidelines required for a particular search will vary depending upon the preferred characteristics for that mandate and the amount of portfolio assets to be invested. While this criteria will serve as the basis for the selection process, additional comparative analysis will be conducted in order to narrow the list of candidates to a manageable number for rigorous research and due diligence.

Selection of Preliminary Candidates (Database Screening) – The Panel will use the Equity Investment Consultant's extensive database of investment products as the initial universe, with additions which they deem appropriate, from which candidates will be selected. Because the goal of the Panel is to be inclusive, the Investment Consultant has established a dedicated request telephone line for managers who wish to add their firms' disciplines to the database. Any firm that expresses an interest is invited to complete the questionnaire for the products it wishes to present for consideration. Each search will begin with the full universe, and candidates will be selected through the screening process based upon the selection criteria established for that particular search. Once the objective screening is complete, the Panel will rely on additional quantitative comparative analysis and the subjective, qualitative input of the Equity Investment Consultant to further narrow the field of candidates to a manageable number.

Preliminary Candidate Evaluation – Once the initial list of candidates is identified, each will be subjected to a detailed analysis. Each of the candidates will be contacted to verify the manager's willingness and ability to participate in the search and to confirm the continued appropriateness of the manager relative to the selection criteria.

Semi-Finalists Selection – Based upon all of the above research, the Investment Consultant will narrow the list of candidates to those organizations which are most appropriate for the Panel's consideration.

Report Preparation – After the list of most appropriate semi-finalist organizations is determined, the Investment Consultant will prepare a report detailing these investment management firms. Data provided in these reports will include comparative return and risk histories; organizational information and fees; information on clients and professional staffing; profiles detailing the investment philosophy, strategies, process, and decision-making approach; and comments on the firms' relative strengths and weaknesses.

Selection of Finalists – The Panel will review the report on the semi-finalists with the Equity Investment Consultant with the goal of selecting a reasonable number for interview. The Panel will typically expect to interview no more than three qualified candidates for the placement, although the number of candidates selected for interviews will be at the Panel's discretion. After the Panel selects finalists for interviews, a copy of a standard Equity Manager Contract for the South Carolina Retirement Systems will be presented to each finalist. To the extent that the manager takes exception to the language of the Standard Contract, the Panel will ask that such exception(s) be stated in writing and submitted for review by the Panel and the Investment Consultant as a part of the final selections.

Interviews – The Equity Investment Consultant will coordinate the interviews and will inform the candidates of the basic information that should be included in the presentation. The Panel and the Equity Investment Consultant will compare and contrast the strengths and weaknesses of the finalists to determine the firm that is best suited to serve as a portfolio manager.

Selection – Following the investment manager presentations, the Equity Investment Consultant will assist the Panel in reaching a consensus regarding the most appropriate manager (or managers) for the role sought, subject to final approval by the State Budget and Control Board.

Implementation – The Panel will recommend its selection to the Board. Upon the Board's approval and execution of a contract between the Board and the Manager, the transition will be accomplished efficiently using appropriate, well documented brokerage arrangements designed to provide a combination of best price and execution.

SECTION IV

Investment Manager Guidelines and Goals

The information included in this section highlights the basic expectations and requirements for specific management disciplines. As the Panel completes the analysis of alternative portfolio structures, revisions will be recommended to the Board. These revisions may result in the addition or deletion of certain strategies, or they may alter the guidelines that apply to a particular discipline.

The Screening Criteria discussed in Section III will be developed at the inception of each search with an expectation that each manager selected for consideration will meet the basic objectives highlighted in this section. In addition, all managers considered for placement will be subject to the following basic requirements:

Managers must provide a verifiable and documented performance record for the strategy under consideration for a minimum of three years. For smaller cap mandates or in special situations where past performance can be reasonably affirmed, the Panel may consider performance generated by a manager at a prior firm. Longer performance records are desirable. Consistency, as well as the ability to add value over longer time periods, will be considered.

Managers must currently manage (in the strategy under consideration) at least twice the value of the System's placement. Managers with experience managing portfolios of similar size and complexity to the System's placement will generally be preferred. Higher levels of assets under management will be required for certain placements, such as passively managed index management. For placements with smaller cap managers, the Panel will be more lenient with their expectations regarding assets under management.

Candidate firms that are subsidiaries or branches of other organizations should devote their time and resources primarily to the management of tax-exempt assets.

Investment staff should be of sufficient depth and breadth to perform the ongoing duties of the firm and proficiently execute the investment philosophy and strategy of the firm. Each principal should have a demonstrated history of portfolio management with experience specific to the area of involvement.

Managers must express a willingness to meet at least annually with the Panel in South Carolina. Strong communication skills and sensitivity to specific client needs are desired qualities.

Management firms that present unique insight and perspective within the discipline under consideration will be preferred. Firms will be evaluated on their security selection techniques, risk control methods, research process, and portfolio construction techniques.

The firm should be professionally managed and have a long-range business plan. The plan should recognize a limitation to the size that the organization can achieve (assets under management and number/type of clients) and still provide the client with the service and attention required. Additionally, there should be a separate, established maximum for assets under management in any small cap strategy under consideration.

Fees must be competitive relative to an appropriate peer group of managers for a particular discipline.

In conducting security trades on behalf of the System, investment managers are directed to give preference to any licensed securities brokerage firm with brokerage office(s) located in the State of South Carolina, to the extent those conducting nondiscretionary transactions through such brokers do not interfere with investment managers' ability to achieve equal service and best execution in the purchase and sale of authorized investments.

PASSIVE LARGE CAP EQUITY PORTFOLIO
INVESTMENT GUIDELINES AND PERFORMANCE OBJECTIVES

Investment Guidelines

ACCEPTABLE INVESTMENTS	Common stocks represented in the S&P 500 Index. The portfolio may employ either a full replication or a sampling approach to indexing the S&P 500.
QUALITY	There are no qualitative guidelines suggested with regard to equity ratings, rankings, etc., except that prudent standards should be developed and maintained in the portfolio.
TURNOVER	If performance results meet objectives, the rate of turnover will not be a factor in the evaluation of the portfolio. Turnover should reflect the activity required to maintain equivalent exposures to the S&P 500 Index.
DIVERSIFICATION	No more than 5% of the portfolio should be invested in any one company (valued at market) unless such company comprises more than 5% of the S&P 500 Index in which case the exposure should equal the S&P 500 Index level.
CASH RESERVES	Although the portfolio is expected to be fully invested, the following guidelines apply to all cash reserves. Cash reserves will be limited to cash equivalent instruments of maturities less than one year and carrying a credit rating of at least A1/P1. Any cash reserve accounts will be required to meet the investment requirements previously established by the Treasurer's Office for short-term investments.

Prohibited Investments and Activities

Purchasing securities on margin
Purchasing or selling commodity contracts
Short sales
Foreign non-dollar denominated securities

Investment Manager Oversight and Review

The assets of the passive large cap equity portfolio will be passively managed in a separately managed or commingled portfolio, subject to the guidelines, objectives, and standards established herein.

Termination of the passive large cap equity portfolio manager will occur whenever the Board determines that the objectives of the total portfolio can more efficiently or effectively be met by the selection of another indexed manager or under a different management mandate. The Board maintains the right to terminate a manager with or without cause.

Circumstances which would result in immediate review and possible termination include (but are not limited to) the following:

- Manager changes strategy or investment style;
- Critical elements of the investment process have broken down;
- Manager is unable to track the index returns sufficiently and is experiencing deviation (positive or negative) from the Index return pattern;
- Transaction costs are determined to be unreasonable;
- Investment management fees are higher than similarly styled managers for similarly sized portfolios; or
- The manager is not complying with the Statement of Investment Objectives and Policies.

Performance Standards

Provide a rate of return that equals (gross of fees) the S&P 500 Index over rolling one, three and five year periods.

Provide a rate of return that tracks the return of the index over quarterly periods.

Maintain a risk level, as measured by the standard deviation of quarterly returns, which mirrors that of the S&P 500 Index.

LARGE CAP CORE EQUITY MANAGER
INVESTMENT GUIDELINES AND PERFORMANCE OBJECTIVES

Investment Guidelines

ACCEPTABLE INVESTMENTS	Equity securities which shall mean common stocks or equivalents (American Depository Receipts [ADRs] that have a US presence as defined in the South Carolina Attorney General's opinions dated April 28, 1999 and September 24, 1999, convertible bonds, preferred stock). It is anticipated that the manager will invest primarily in companies considered to have large to medium capitalization levels. ADRs (as defined above) may comprise up to 20% of the equity holdings.
QUALITY	There are no qualitative guidelines suggested with regard to equity ratings, rankings, etc., except that prudent standards should be developed and maintained by the manager.
TURNOVER	If performance results meet objectives, the rate of turnover will not be a factor in the evaluation of the portfolio.
DIVERSIFICATION	No more than 8% (or the benchmark S&P 500 Index weighting plus 200 basis points, if higher) of the portfolio should be invested in any one company (valued at market). Sector allocations should closely mirror the sector allocations of the benchmark index and should generally remain within a range of ± 5 percentage points.
CASH RESERVES	Although the portfolio is expected to be fully invested, the following guidelines apply to all cash reserves. Cash reserves will be limited to cash equivalent instruments of maturities less than one year and carrying a credit rating of at least A1/P1. Any cash reserve accounts will be required to meet the investment requirements previously established by the Treasurer's Office for short-term investments.

Prohibited Investments and Activities

Options writing or purchasing
Purchasing securities on margin
Purchasing or selling commodity contracts
Short sales
Leveraged derivative securities
Foreign non-dollar denominated securities

Investment Manager Oversight and Review

The assets of the large capitalization core style equity portfolio will be actively managed in a separately managed or commingled portfolio, subject to the guidelines, objectives, and standards established herein.

Termination of the large cap core equity manager will occur whenever the Board determines that the objectives of the total portfolio can more efficiently or effectively be met by the selection of another large cap core equity manager or under a different management mandate. The Board maintains the right to terminate a manager with or without cause.

Circumstances which would result in immediate review and possible termination include (but are not limited to) the following:

- Manager changes strategy or investment style;
- Critical elements of the investment process have broken down;
- Manager is unable to meet the performance expectations within the risk tolerance specified;
- The portfolio is exhibiting style characteristics which are not consistent with the defined mandate;
- Transaction costs are determined to be unreasonable;
- Investment management fees are higher than similarly styled managers for similarly sized portfolios;
- The manager is not complying with the Statement of Investment Objectives and Policies; or
- Significant organizational changes.

Performance Standards

Provide a rate of return that exceeds the S&P 500 Index over rolling five year periods.

Provide a rate of return that exceeds the median in a universe of large capitalization equity managers over rolling five year periods. The manager's returns should remain competitive with the returns of other large capitalization core style equity managers over rolling three year periods.

Maintain a risk level, as measured by the standard deviation of quarterly returns, which is less than 125% of the risk level of the S&P 500 Index.

LARGE CAP VALUE EQUITY MANAGER
INVESTMENT GUIDELINES AND PERFORMANCE OBJECTIVES

Investment Guidelines

ACCEPTABLE INVESTMENTS	Equity securities which shall mean common stocks or equivalents (American Depository Receipts [ADRs] that have a US presence as defined in the South Carolina Attorney General's opinions dated April 28, 1999 and September 14, 1999, convertible bonds, preferred stock). It is anticipated that the manager will invest primarily in companies considered to have large to medium capitalization levels. ADRs (as defined above) may comprise up to 20% of the equity holdings.
QUALITY	There are no qualitative guidelines suggested with regard to equity ratings, rankings, etc. except that prudent standards should be developed and maintained by the manager.
TURNOVER	If performance results meet objectives, the rate of turnover will not be a factor in the evaluation of the portfolio.
DIVERSIFICATION	No more than 8% (or the benchmark Russell 1000 Value Index weighting plus 200 basis points, if higher) of the portfolio should be invested in any one company (valued at market). No more than 50% of the portfolio can be invested in any one sector, and the manager must maintain a diversified exposure to at least five market sectors at all times.
CASH RESERVES	Although the portfolio is expected to be fully invested, the following guidelines apply to all cash reserves. Cash reserves will be limited to cash equivalent instruments of maturities less than one year and carrying a credit rating of at least A1/P1. Any cash reserve accounts will be required to meet the investment requirements previously established by the Treasurer's Office for short-term investments.

Prohibited Investments and Activities

Options writing or purchasing (except writing covered calls as part of a risk control strategy)
Purchasing securities on margin
Purchasing or selling commodity contracts
Short sales
Leveraged derivative securities
Foreign non-dollar denominated securities

Investment Manager Oversight and Review

The assets of the large capitalization value style equity portfolio will be actively managed in a separately managed portfolio, subject to the guidelines, objectives, and standards established herein.

Termination of the large cap value equity manager will occur whenever the Board determines that the objectives of the total portfolio can more efficiently or effectively be met by the selection of another large cap value equity manager or under a different management mandate. The Board maintains the right to terminate a manager with or without cause.

Circumstances which would result in immediate review and possible termination include (but are not limited to) the following:

- Manager changes strategy or investment style;
- Critical elements of the investment process have broken down;
- Manager is unable to meet the performance expectations within the risk tolerance specified;
- The portfolio is exhibiting style characteristics which are not consistent with the defined mandate;
- Transaction costs are determined to be unreasonable;
- Investment management fees are higher than similarly styled managers for similarly sized portfolios;
- The manager is not complying with the Statement of Investment Objectives and Policies; or
- Significant organizational changes.

Performance Standards

Provide a rate of return that exceeds the S&P 500 Index over rolling five year periods. The returns provided by the manager should remain competitive with the returns of the Russell 1000 Value Index over rolling three year periods.

Provide a rate of return that exceeds the median in a universe of large capitalization value style equity managers over rolling five year periods. The manager’s returns should remain competitive with the returns of other large capitalization value style equity managers over rolling three year periods.

Maintain a risk level, as measured by the standard deviation of quarterly returns, which is less than 133% of the risk level of the S&P 500 Index.

LARGE CAP GROWTH EQUITY MANAGER
INVESTMENT GUIDELINES AND PERFORMANCE OBJECTIVES

Investment Guidelines

ACCEPTABLE INVESTMENTS	Equity securities which shall mean common stocks or equivalents (American Depository Receipts [ADRs] that have a US presence as defined in the South Carolina Attorney General's opinions dated April 28, 1999 and September 14, 1999, convertible bonds, preferred stock). It is anticipated that the manager will invest primarily in companies considered to have large to medium capitalization levels. ADRs as defined above may comprise up to 20% of the equity holdings.
QUALITY	There are no qualitative guidelines suggested with regard to equity ratings, rankings, etc., except that prudent standards should be developed and maintained by the manager.
TURNOVER	If performance results meet objectives, the rate of turnover will not be a factor in the evaluation of the portfolio.
DIVERSIFICATION	No more than 8% (or the benchmark Russell 1000 Growth Index weighting plus 200 basis points, if higher) of the portfolio should be invested in any one company (valued at market). No more than 50% of the portfolio can be invested in any one sector, and the portfolio must maintain a diversified exposure to at least five market sectors at all times.
CASH RESERVES	Although the portfolio is expected to be fully invested, the following guidelines apply to all cash reserves. Cash reserves will be limited to cash equivalent instruments of maturities less than one year and carrying a credit rating of at least A1/P1. Any cash reserve accounts will be required to meet the investment requirements previously established by the Treasurer's Office for short-term investments.

Prohibited Investments and Activities

Options writing or purchasing
Purchasing securities on margin
Purchasing or selling commodity contracts
Short sales
Leveraged derivative securities
Foreign non-dollar denominated securities

Investment Manager Oversight and Review

The assets of the large capitalization growth style equity portfolio will be actively managed in a separately managed portfolio, subject to the guidelines, objectives, and standards established herein.

Termination of the large cap growth equity manager will occur whenever the Board determines that the objectives of the total portfolio can more efficiently or effectively be met by the selection of another large cap growth equity manager or under a different management mandate. The Board maintains the right to terminate a manager with or without cause.

Circumstances which would result in immediate review and possible termination include (but are not limited to) the following:

- Manager changes strategy or investment style;
- Critical elements of the investment process have broken down;
- Manager is unable to meet the performance expectations within the risk tolerance specified;
- The portfolio is exhibiting style characteristics which are not consistent with the defined mandate;
- Transaction costs are determined to be unreasonable;
- Investment management fees are higher than similarly styled managers for similarly sized portfolios;
- The manager is not complying with the Statement of Investment Objectives and Policies; or
- Significant organizational changes.

Performance Standards

Provide a rate of return that exceeds the S&P 500 Index over rolling five year periods. The returns provided by the manager should remain competitive with the returns of the Russell 1000 Growth Index over rolling three year periods.

Provide a rate of return that exceeds the median in a universe of large capitalization growth style equity managers over rolling five year periods. The manager's returns should remain competitive with the returns of other large capitalization growth style equity managers over rolling three year periods.

Maintain a risk level, as measured by the standard deviation of quarterly returns, which is less than 150% of the risk level of the S&P 500 Index.

PASSIVE SMALLER CAP EQUITY PORTFOLIO
INVESTMENT GUIDELINES AND PERFORMANCE OBJECTIVES

Investment Guidelines

ACCEPTABLE INVESTMENTS	Common stocks represented in the Russell 2000 Index. The portfolio may employ either a full replication or a sampling approach to indexing the Russell 2000.
QUALITY	There are no qualitative guidelines suggested with regard to equity ratings, rankings, etc., except that prudent standards should be developed and maintained in the portfolio.
TURNOVER	If performance results meet objectives, the rate of turnover will not be a factor in the evaluation of the portfolio. Turnover should reflect the activity required to maintain equivalent exposures to the Russell 2000 Index.
DIVERSIFICATION	No more than 5% of the portfolio should be invested in any one company (valued at market) unless such company comprises more than 5% of the Russell 2000 Index in which case the exposure should equal the Russell 2000 Index level.
CASH RESERVES	Although the portfolio is expected to be fully invested, the following guidelines apply to all cash reserves. Cash reserves will be limited to cash equivalent instruments of maturities less than one year and carrying a credit rating of at least A1/P1. Any cash reserve accounts will be required to meet the investment requirements previously established by the Treasurer's Office for short-term investments.

Prohibited Investments and Activities

Purchasing securities on margin
Purchasing or selling commodity contracts
Short sales
Foreign non-dollar denominated securities

Investment Manager Oversight and Review

The assets of the passive smaller cap equity portfolio will be passively managed in a separately managed or commingled portfolio, subject to the guidelines, objectives, and standards established herein.

Termination of the passive smaller cap equity portfolio manager will occur whenever the Board determines that the objectives of the total portfolio can more efficiently or effectively be met by the selection of another manager or under a different management mandate. The Board maintains the right to terminate a manager with or without cause.

Circumstances which would result in immediate review and possible termination include (but are not limited to) the following:

- Manager changes strategy or investment style;
- Critical elements of the investment process have broken down;
- Manager is unable to track the index returns sufficiently and is experiencing deviation (positive or negative) from the Index return pattern;
- Transaction costs are determined to be unreasonable;
- Investment management fees are higher than similarly styled managers for similarly sized portfolios; or
- The manager is not complying with the Statement of Investment Objectives and Policies.

Performance Standards

Provide a rate of return that equals (gross of fees) the Russell 2000 Index over rolling one, three and five year periods.

Provide a rate of return that tracks the return of the index over quarterly periods.

Maintain a risk level, as measured by the standard deviation of quarterly returns, which mirrors that of the Russell 2000 Index.

MID/SMALL CAP CORE EQUITY MANAGER
INVESTMENT GUIDELINES AND PERFORMANCE OBJECTIVES

Investment Guidelines

ACCEPTABLE INVESTMENTS

Equity securities which shall mean common stocks or equivalents (American Depository Receipts [ADRs] that have a US presence as defined in the South Carolina Attorney General's opinions dated April 28, 1999 and September 14, 1999, convertible bonds, preferred stock). It is anticipated that the manager will invest primarily in companies considered to have mid to small capitalization levels. ADRs (as defined above) may comprise up to 10% of the equity holdings.

QUALITY

There are no qualitative guidelines suggested with regard to equity ratings, rankings, etc. except that prudent standards should be developed and maintained by the manager.

TURNOVER

If performance results meet objectives, the rate of turnover will not be a factor in the evaluation of the portfolio.

DIVERSIFICATION

No more than 8% (or the benchmark Russell 2500 Index weighting plus 200 basis points, if higher) of the portfolio should be invested in any one company (valued at market). Sector allocations should generally mirror the sector allocations of the benchmark index and should generally remain within a range of ± 10 percentage points. However, no more than 50% of the portfolio can be invested in any one sector, and the portfolio must maintain a diversified exposure to at least seven market sectors at all times.

CASH RESERVES

Although the portfolio is expected to be fully invested, the following guidelines apply to all cash reserves. Cash reserves will be limited to cash equivalent instruments of maturities less than one year and carrying a credit rating of at least A1/P1. Any cash reserve accounts will be required to meet the investment requirements previously established by the Treasurer's Office for short-term investments.

Prohibited Investments and Activities

Options writing or purchasing
Purchasing securities on margin
Purchasing or selling commodity contracts
Short sales
Leveraged derivative securities
Foreign non-dollar denominated securities

Investment Manager Oversight and Review

The assets of the mid/small capitalization core style equity portfolio will be actively managed in a separately managed portfolio, subject to the guidelines, objectives, and standards established herein.

Termination of the mid/small cap core equity manager will occur whenever the Board determines that the objectives of the total portfolio can more efficiently or effectively be met by the selection of another mid/small cap core equity manager or under a different management mandate. The Board maintains the right to terminate a manager with or without cause.

Circumstances which would result in immediate review and possible termination include (but are not limited to) the following:

- Manager changes strategy or investment style;
- Critical elements of the investment process have broken down;
- Manager is unable to meet the performance expectations within the risk tolerance specified;
- The portfolio is exhibiting style characteristics which are not consistent with the defined mandate;
- Transaction costs are determined to be unreasonable;
- Investment management fees are higher than similarly styled managers for similarly sized portfolios;
- The manager is not complying with the Statement of Investment Objectives and Policies; or
- Significant organizational changes.

Performance Standards

Provide a rate of return that exceeds the Russell 2500 Index over rolling five year periods.

Provide a rate of return that exceeds the median in a universe of mid/small capitalization equity managers over rolling five year periods. The manager's returns should remain competitive with the returns of other mid/small capitalization core style equity managers over rolling three year periods.

Maintain a risk level, as measured by the standard deviation of quarterly returns, which is less than 125% of the risk level of the Russell 2500 Index.

MID/SMALL CAP VALUE EQUITY MANAGER
INVESTMENT GUIDELINES AND PERFORMANCE OBJECTIVES

Investment Guidelines

ACCEPTABLE INVESTMENTS	Equity securities which shall mean common stocks or equivalents (American Depository Receipts [ADRs] that have a US presence as defined in the South Carolina Attorney General's opinions dated April 28, 1999 and September 14, 1999, convertible bonds, preferred stock). It is anticipated that the manager will invest primarily in companies considered to have mid to small capitalization levels. ADRs (as defined above) may comprise up to 10% of the equity holdings.
QUALITY	There are no qualitative guidelines suggested with regard to equity ratings, rankings, etc., except that prudent standards should be developed and maintained by the manager.
TURNOVER	If performance results meet objectives, the rate of turnover will not be a factor in the evaluation of the portfolio.
DIVERSIFICATION	No more than 8% (or the benchmark Russell 2500 Value Index weighting plus 200 basis points, if higher) of the portfolio should be invested in any one company (valued at market). No more than 50% of the portfolio can be invested in any one sector, and the portfolio must maintain a diversified exposure to at least five market sectors at all times.
CASH RESERVES	Although the portfolio is expected to be fully invested, the following guidelines apply to all cash reserves. Cash reserves will be limited to cash equivalent instruments of maturities less than one year and carrying a credit rating of at least A1/P1. Any cash reserve accounts will be required to meet the investment requirements previously established by the Treasurer's Office for short-term investments.

Prohibited Investments and Activities

Options writing or purchasing
Purchasing securities on margin
Purchasing or selling commodity contracts
Short sales
Leveraged derivative securities
Foreign non-dollar denominated securities

Investment Manager Oversight and Review

The assets of the mid/small capitalization value style equity portfolio will be actively managed in a separately managed portfolio, subject to the guidelines, objectives, and standards established herein.

Termination of the mid/small cap value equity manager will occur whenever the Board determines that the objectives of the total portfolio can more efficiently or effectively be met by the selection of another mid/small cap value equity manager or under a different management mandate. The Board maintains the right to terminate a manager with or without cause.

Circumstances which would result in immediate review and possible termination include (but are not limited to) the following:

- Manager changes strategy or investment style;
- Critical elements of the investment process have broken down;
- Manager is unable to meet the performance expectations within the risk tolerance specified;
- The portfolio is exhibiting style characteristics which are not consistent with the defined mandate;
- Transaction costs are determined to be unreasonable;
- Investment management fees are higher than similarly styled managers for similarly sized portfolios;
- The manager is not complying with the Statement of Investment Objectives and Policies; or
- Significant organizational changes.

Performance Standards

Provide a rate of return that exceeds the Russell 2500 Index over rolling five year periods. The returns of the portfolio should remain competitive with the returns of the Russell 2500 Value Index over rolling three year periods.

Provide a rate of return that exceeds the median in a universe of mid/small capitalization equity managers over rolling five year periods. The manager’s returns should remain competitive with the returns of other mid/small capitalization value style equity managers over rolling three year periods.

Maintain a risk level, as measured by the standard deviation of quarterly returns, which is less than 133% of the risk level of the Russell 2500 Index.

MID/SMALL CAP GROWTH EQUITY MANAGER
INVESTMENT GUIDELINES AND PERFORMANCE OBJECTIVES

Investment Guidelines

ACCEPTABLE INVESTMENTS	Equity securities which shall mean common stocks or equivalents (American Depository Receipts [ADRs] that have a US presence as defined in the South Carolina Attorney General's opinions dated April 28, 1999 and September 14, 1999, convertible bonds, preferred stock). It is anticipated that the manager will invest primarily in companies considered to have mid to small capitalization levels. ADRs (as defined above) may comprise up to 10% of the equity holdings.
QUALITY	There are no qualitative guidelines suggested with regard to equity ratings, rankings, etc., except that prudent standards should be developed and maintained by the manager.
TURNOVER	If performance results meet objectives, the rate of turnover will not be a factor in the evaluation of the portfolio.
DIVERSIFICATION	No more than 8% (or the benchmark Russell 2500 Growth Index weighting plus 200 basis points, if higher) of the portfolio should be invested in any one company (valued at market). No more than 50% of the portfolio can be invested in any one sector, and the portfolio must maintain a diversified exposure to at least five market sectors at all times.
CASH RESERVES	Although the portfolio is expected to be fully invested, the following guidelines apply to all cash reserves. Cash reserves will be limited to cash equivalent instruments of maturities less than one year and carrying a credit rating of at least A1/P1. Any cash reserve accounts will be required to meet the investment requirements previously established by the Treasurer's Office for short-term investments.

Prohibited Investments and Activities

Options writing or purchasing
Purchasing securities on margin
Purchasing or selling commodity contracts
Short sales
Leveraged derivative securities
Foreign non-dollar denominated securities

Investment Manager Oversight and Review

The assets of the mid/small capitalization growth style equity portfolio will be actively managed in a separately managed portfolio, subject to the guidelines, objectives, and standards established herein.

Termination of the mid/small cap growth equity manager will occur whenever the Board determines that the objectives of the total portfolio can more efficiently or effectively be met by the selection of another mid/small cap growth equity manager or under a different management mandate. The Board maintains the right to terminate a manager with or without cause.

Circumstances which would result in immediate review and possible termination include (but are not limited to) the following:

- Manager changes strategy or investment style;
- Critical elements of the investment process have broken down;
- Manager is unable to meet the performance expectations within the risk tolerance specified;
- The portfolio is exhibiting style characteristics which are not consistent with the defined mandate;
- Transaction costs are determined to be unreasonable;
- Investment management fees are higher than similarly styled managers for similarly sized portfolios;
- The manager is not complying with the Statement of Investment Objectives and Policies; or
- Significant organizational changes.

Performance Standards

Provide a rate of return that exceeds the Russell 2500 Index over rolling five year periods. The returns of the portfolio should remain competitive with the returns of the Russell 2500 Growth Index over rolling three year periods.

Provide a rate of return that exceeds the median in a universe of mid/small capitalization equity managers over rolling five year periods. The manager’s returns should remain competitive with the returns of other mid/small capitalization growth style equity managers over rolling three year periods.

Maintain a risk level, as measured by the standard deviation of quarterly returns, which is less than 150% of the risk level of the Russell 2500 Index.

SMALL CAP CORE EQUITY MANAGER
INVESTMENT GUIDELINES AND PERFORMANCE OBJECTIVES

Investment Guidelines

ACCEPTABLE INVESTMENTS	Equity securities which shall mean common stocks or equivalents (American Depository Receipts [ADRs] that have a US presence as defined in the South Carolina Attorney General's opinions dated April 28, 1999, and September 14, 1999, convertible bonds, preferred stock). It is anticipated that the manager will invest primarily in companies considered to have small capitalization levels. ADRs (as defined above) may comprise up to 10% of the equity holdings.
QUALITY	There are no qualitative guidelines suggested with regard to equity ratings, rankings, etc., except that prudent standards should be developed and maintained by the manager.
TURNOVER	If performance results meet objectives, the rate of turnover will not be a factor in the evaluation of the portfolio.
DIVERSIFICATION	No more than 8% (or the benchmark Russell 2000 Index weighting plus 200 basis points, if higher) of the portfolio should be invested in any one company (valued at market). Sector allocations should generally mirror the sector allocations of the benchmark index and should generally remain within a range of ± 10 percentage points. However, no more than 50% of the portfolio can be invested in any one sector, and the portfolio must maintain a diversified exposure to at least seven market sectors at all times.
CASH RESERVES	Although the portfolio is expected to be fully invested, the following guidelines apply to all cash reserves. Cash reserves will be limited to cash equivalent instruments of maturities less than one year and carrying a credit rating of at least A1/P1. Any cash reserve accounts will be required to meet the investment requirements previously established by the Treasurer's Office for short-term investments.

Prohibited Investments and Activities

Options writing or purchasing
Purchasing securities on margin
Purchasing or selling commodity contracts
Short sales
Leveraged derivative securities
Foreign non-dollar denominated securities

Investment Manager Oversight and Review

The assets of the small capitalization core style equity portfolio will be actively managed in a separately managed portfolio, subject to the guidelines, objectives, and standards established herein.

Termination of the small cap core equity manager will occur whenever the Board determines that the objectives of the total portfolio can more efficiently or effectively be met by the selection of another small cap core equity manager or under a different management mandate. The Board maintains the right to terminate a manager with or without cause.

Circumstances which would result in immediate review and possible termination include (but are not limited to) the following:

- Manager changes strategy or investment style;
- Critical elements of the investment process have broken down;
- Manager is unable to meet the performance expectations within the risk tolerance specified;
- The portfolio is exhibiting style characteristics which are not consistent with the defined mandate;
- Transaction costs are determined to be unreasonable;
- Investment management fees are higher than similarly styled managers for similarly sized portfolios;
- The manager is not complying with the Statement of Investment Objectives and Policies; or
- Significant organizational changes.

Performance Standards

Provide a rate of return that exceeds the Russell 2000 Index over rolling five year periods.

Provide a rate of return that exceeds the median in a universe of small capitalization equity managers over rolling five year periods. The manager's returns should remain competitive with the returns of other small capitalization core style equity managers over rolling three year periods.

Maintain a risk level, as measured by the standard deviation of quarterly returns, which is less than 125% of the risk level of the Russell 2000 Index.

SMALL CAP VALUE EQUITY MANAGER
INVESTMENT GUIDELINES AND PERFORMANCE OBJECTIVES

Investment Guidelines

ACCEPTABLE INVESTMENTS	Equity securities which shall mean common stocks or equivalents (American Depository Receipts [ADRs] that have a US presence as defined in the South Carolina Attorney General's opinions dated April 28, 1999 and September 14, 1999, convertible bonds, preferred stock). It is anticipated that the manager will invest primarily in companies considered to have small capitalization levels. ADRs (as defined above) may comprise up to 10% of the equity holdings.
QUALITY	There are no qualitative guidelines suggested with regard to equity ratings, rankings, etc., except that prudent standards should be developed and maintained by the manager.
TURNOVER	If performance results meet objectives, the rate of turnover will not be a factor in the evaluation of the portfolio.
DIVERSIFICATION	No more than 8% (or the benchmark Russell 2000 Value Index weighting plus 200 basis points, if higher) of the portfolio should be invested in any one company (valued at market). No more than 50% of the portfolio can be invested in any one sector, and the portfolio must maintain a diversified exposure to at least five market sectors at all times.
CASH RESERVES	Although the portfolio is expected to be fully invested, the following guidelines apply to all cash reserves. Cash reserves will be limited to cash equivalent instruments of maturities less than one year and carrying a credit rating of at least A1/P1. Any cash reserve accounts will be required to meet the investment requirements previously established by the Treasurer's Office for short-term investments.

Prohibited Investments and Activities

Options writing or purchasing
Purchasing securities on margin
Purchasing or selling commodity contracts
Short sales
Leveraged derivative securities
Foreign non-dollar denominated securities

Investment Manager Oversight and Review

The assets of the small capitalization value style equity portfolio will be actively managed in a separately managed portfolio, subject to the guidelines, objectives, and standards established herein.

Termination of the small cap value equity manager will occur whenever the Board determines that the objectives of the total portfolio can more efficiently or effectively be met by the selection of another small cap value manager or under a different management mandate. The Board maintains the right to terminate a manager with or without cause.

Circumstances which would result in immediate review and possible termination include (but are not limited to) the following:

- Manager changes strategy or investment style;
- Critical elements of the investment process have broken down;
- Manager is unable to meet the performance expectations within the risk tolerance specified;
- The portfolio is exhibiting style characteristics which are not consistent with the defined mandate;
- Transaction costs are determined to be unreasonable;
- Investment management fees are higher than similarly styled managers for similarly sized portfolios;
- The manager is not complying with the Statement of Investment Objectives and Policies; or
- Significant organizational changes.

Performance Standards

Provide a rate of return that exceeds the Russell 2000 Index over rolling five year periods. The returns of the portfolio should remain competitive with the returns of the Russell 2000 Value Index over rolling three year periods.

Provide a rate of return that exceeds the median in a universe of small capitalization equity managers over rolling five year periods. The manager's returns should remain competitive with the returns of other small capitalization value style equity managers over rolling three year periods.

Maintain a risk level, as measured by the standard deviation of quarterly returns, which is less than 133% of the risk level of the Russell 2000 Index.

SMALL CAP GROWTH EQUITY MANAGER
INVESTMENT GUIDELINES AND PERFORMANCE OBJECTIVES

Investment Guidelines

ACCEPTABLE INVESTMENTS	Equity securities which shall mean common stocks or equivalents (American Depository Receipts [ADRs] that have a US presence as defined in the South Carolina Attorney General's opinions dated April 28, 1999 and September 14, 1999, convertible bonds, preferred stock). It is anticipated that the manager will invest primarily in companies considered to have small capitalization levels. ADRs (as defined above) may comprise up to 10% of the equity holdings.
QUALITY	There are no qualitative guidelines suggested with regard to equity ratings, rankings, etc., except that prudent standards should be developed and maintained by the manager.
TURNOVER	If performance results meet objectives, the rate of turnover will not be a factor in the evaluation of the portfolio.
DIVERSIFICATION	No more than 8% (or the benchmark Russell 2000 Growth Index weighting plus 200 basis points, if higher) of the portfolio should be invested in any one company (valued at market). No more than 50% of the portfolio can be invested in any one sector, and the portfolio must maintain a diversified exposure to at least five market sectors at all times.
CASH RESERVES	Although the portfolio is expected to be fully invested, the following guidelines apply to all cash reserves. Cash reserves will be limited to cash equivalent instruments of maturities less than one year and carrying a credit rating of at least A1/P1. Any cash reserve accounts will be required to meet the investment requirements previously established by the Treasurer's Office for short-term investments.

Prohibited Investments and Activities

Options writing or purchasing
Purchasing securities on margin
Purchasing or selling commodity contracts
Short sales
Leveraged derivative securities
Foreign non-dollar denominated securities

Investment Manager Oversight and Review

The assets of the small capitalization growth style equity portfolio will be actively managed in a separately managed portfolio, subject to the guidelines, objectives, and standards established herein.

Termination of the small cap growth equity manager will occur whenever the Board determines that the objectives of the total portfolio can more efficiently or effectively be met by the selection of another small cap growth equity manager or under a different management mandate. The Board maintains the right to terminate a manager with or without cause.

Circumstances which would result in immediate review and possible termination include (but are not limited to) the following:

- Manager changes strategy or investment style;
- Critical elements of the investment process have broken down;
- Manager is unable to meet the performance expectations within the risk tolerance specified;
- The portfolio is exhibiting style characteristics which are not consistent with the defined mandate;
- Transaction costs are determined to be unreasonable;
- Investment management fees are higher than similarly styled managers for similarly sized portfolios;
- The manager is not complying with the Statement of Investment Objectives and Policies; or
- Significant organizational changes.

Performance Standards

Provide a rate of return that exceeds the Russell 2000 Index over rolling five year periods. The returns of the portfolio should remain competitive with the returns of the Russell 2000 Growth Index over rolling three year periods.

Provide a rate of return that exceeds the median in a universe of small capitalization equity managers over rolling five year periods. The manager's returns should remain competitive with the returns of other small capitalization growth style equity managers over rolling three year periods.

Maintain a risk level, as measured by the standard deviation of quarterly returns, which is less than 150% of the risk level of the Russell 2000 Index.